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SUBJECT: Slow but Steady Progress on Sri Lankan Tsunami  
Reconstruction

Ref: 05 Colombo 1705

¶1. (U) Summary: Despite a change in Government in late 2005, and resultant changes in ministries and personnel handling tsunami reconstruction, Sri Lanka continues to make steady, if not speedy, progress in rebuilding. The new Government has rolled back the problematic ?buffer zone,? thus moving thousands out of the donor driven housing program into an owner-driven cash grant program. By its own admission though, the Government has set an unrealistic goal of building 22,000 houses by the end of ¶2006. The International Federation of the Red Cross, the largest housing donor, has completed approximately 1,000 houses (out of a promised 15,000), has 2,500 tendered and identified land for 7,000. Key obstacles to progress include a lack of skilled labor, insufficient funding for the owner-driven cash grant program and bureaucratic inefficiencies. Corruption, while undoubtedly present, has not been an enormous problem, and most charges of corruption could be more accurately labeled as inefficiencies. USAID projects are on target, but subject to potential delays due to the lack of skilled labor, materials shortages or the potential drawdown of key USAID personnel. End Summary

Progress Slow, but Steady

¶2. (U) As the 18 month post-tsunami mark approaches, Sri Lanka has made good progress, though continued changes to the nation's coastal conservation policy and a presidential election have meant disruptions along the way.

¶3. (U) Housing remains the most critical infrastructure need. Following Presidential elections in November 2005, the Government of President Mahinda Rajapaksa rolled back the 100m/200m coastal 'buffer zone' in favor of the regulations that existed prior to the tsunami (a 1997 law on coastal conservation) (Note: Rajapaksa had pledged to do this in his campaign. End Note). While this expanded space available for rebuilding, confusion over the policy and entrenched bureaucracy in the construction approval process remained.

International Federation of the Red Cross

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14. (U) The International Federation of the Red Cross (IFRC) is the largest housing donor in Sri Lanka. IFRC committed to build 15,000 new homes. With the rollback of the buffer zone, however, IFRC expects approximately 5,000-6,000 of these people to elect to transfer into the 'owner-driven housing project' (ODHP) in which affected homeowners are eligible for a series of grants to rebuild their homes themselves (Note: under the 'donor-driven' housing program (DDHP) the government contracts with donors to provide houses for affected families outside the previously identified buffer zone. End Note). This would leave approximately 8,000-10,000 homes under IFRC's commitment. IFRC has about 1000 homes under construction, has tendered for 2,500, and has agreed on location for 7,000. Approximately 1,100 plots offered by the GSL have been rejected as unsuitable (for various reasons). IFRC is working with the GSL to find appropriate sites.

#### Moving Beneficiaries from One Program to Another

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15. (SBU) Saliya Wickramasuriya, Chief Operating Officer of the newly formed Reconstruction and Development Agency (RADA), told Econchief on March 13 that the Government has set a goal of completing all permanent housing by the end of 2006. Wickramasuriya admitted that the GSL cannot complete such a task on its own and hopes to move beneficiaries out of the DDHP and into the ODHP. Wickramasuriya estimates the GSL will need to complete an additional 22,000 homes in order to meet this goal in 2006.

#### Key Obstacles to Progress

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16. (U) While the number of homes and identification of beneficiaries are daunting challenges, the single biggest hurdle to timely completion of home reconstruction is the lack of suitable, skilled labor. Over the last 10-20 years, many skilled laborers in Sri Lanka have found greener pastures abroad. Many donor agencies (including USAID) are stepping up skills training programs, often with a gap between program implementation and employment. The USAID-funded skills training programs are being designed with job placement in mind, offering apprenticeships, internships and other forms of practice through the certification programs.

17. (U) Another hurdle to reconstruction has been the lack of support and sufficient funds under the ODHP. Under the ODHP, homeowners are entitled to grants of up to USD 2,500. It generally costs about USD 5,000 to complete a new home that meets post-tsunami housing reconstruction standards. Therefore, the World Bank and IFRC are working with other donor agencies and NGOs to provide a 'top-up' program, which could provide the additional funds.

18. (SBU) The GSL continues to struggle internally as it moves ahead. Bureaucratic infighting remains a problem. RADA replaced the Task Force for Rebuilding the Nation (TAFREN) following the November elections, but has still not presented its implementing legislation to the cabinet (a required step prior to its presentation in parliament). The Finance Secretary, moreover, has suggested that unless he sees significantly improved outcomes, particularly in homebuilding progress, he may hold up the legislation indefinitely. Wickramasuriya, on the other hand, has suggested that RADA needs to be able to work directly with donors, including the Multilateral Development Banks (MDBs), to bypass the Finance Ministry on issues not related to reconstruction financing. Wickramasuriya has also said that other relevant ministries see his agency as a threat, thus creating a challenge for developing cooperative working relationships.

#### Corruption Allegations

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¶9. (U) As reported reftel, there have been numerous allegations of corruption throughout the post-tsunami reconstruction process. An Auditor General's report that was widely circulated as having highlighted 'corruption' identified actions that would be more correctly labeled as 'inefficiencies.'

¶10. (U) Then-Prime Minister Rajapaksa (now Sri Lanka's President) faced allegations of corruption prior to the November 2004 Presidential election, when it was determined that he had placed Rs 82 Million (USD 820,000) of tsunami donations in a private bank account. The President was accused of not following procedures outlined in Sri Lankan financial regulations for accepting, accounting for and using donations. In particular, Sri Lankan financial regulations do not allow the transfer of funds received by the government in to a private trust. The money has been accounted for, and the Supreme Court ruled prior to the November election that the case had been handled inappropriately by the police, who acted without the Attorney General's concurrence when they launched an investigation. The President's Secretary reportedly acknowledged the money had been put into private accounts as a way to hasten deployment for tsunami projects. The Supreme Court ruled on March 27 that Rajapaksa's 'fundamental rights' had been violated, and ordered payments totaling Rs. 500,000 (USD 5,000) from several individuals including the Chief of Police and opposition MP Kabir Hashim, the complainant, who, the court determined, did not have standing to sue.

#### USAID Projects

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¶11. (U) USAID post-tsunami reconstruction projects are moving ahead smartly. The following is a brief synopsis of

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USAID programs to date:

#### Transition from Camps to Communities (Livelihoods):

REVIVE - project to restore 29,000 livelihoods through grants, loans and other assistance packages, including technical assistance to partner organizations. 10,000 beneficiaries have been helped so far and activities to reach an additional 16,000 are currently being implemented. This project should be completed in FY 2006.

Small Grants Program - Through USAID's Office of Transition Initiatives (OTI) 20,205 people have received cash-for-work grants and 1,888 fishermen in 8 cooperatives received 41 boats with motors and necessary equipment.

#### Small Scale Infrastructure:

Physically Accessible Post-Tsunami Reconstruction - support to Motivation Charitable Trust to advocate that reconstructed tsunami structures be accessible by the disabled. USAID support has led to passage of a cabinet directive and pursuant regulations ordering that all post-tsunami reconstruction be physically accessible. In

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addition to the Motivation activities, USAID's prime contractor, CH2MHill will be designing vocational education schools that are accessible for persons with disabilities. Disability access construction is slated for completion in mid-FY 2008.

Playgrounds for Tsunami Affected Children - USAID has completed 4 of 85 planned playgrounds for tsunami affected areas, with numerous others under construction. This program is an excellent example of public-private partnership, and includes USAID, the American Jewish Joint Distribution Committee and the Bush-Clinton Tsunami Relief

Fund. At the current rate of construction, USAID expects to complete construction of the final playgrounds by the third quarter of FY 2008.

Small Grants Program - USAID/OTI has committed USD 1,043,254 of supplemental funding to support small scale infrastructure rehabilitation in six districts in the south and east. To date OTI has funded 21 projects, including the rehabilitation of public markets, schools, transportation infrastructure, irrigation canals and roads. Eight of the projects have been completed and 13 are underway. All small grant projects should be completed by second quarter FY-2008, but security constraints had, until recently, hindered progress in the eastern province and community consultations in the south were delayed by the November 2005 Presidential elections.

#### Large Scale Infrastructure:

Arugam Bay Bridge - the schedule for this activity is on target per the terms of the contract with CH2MHill. A solicitation will be issued in the next couple of months for award of the construction sub-contract with a target award date of August 1, 2006, and a planned completion date of February 1, 2008. A 3-6 month delay is possible, due to tsunami-related inflation pressures and increased demand

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for building materials.

Fishing Harbor Repair and Improvements - sub-contract to be awarded June 27, 2006 with completion planned for July 1, 2007.

Vocational Education - sub-contract to be awarded on August 1, 2006 with completion planned for September 1, 2007.

Pottuvil Water Treatment Plant - sub-contract to be awarded November 1, 2006 with completion planned for August 1, 2007.

#### Technical Assistance Good Governance Programs:

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Accountability in Local Governance - assistance is underway for 20 tsunami affected local authorities in southern and eastern provinces. 315 local authority officials have been trained in computing for finance, budget development, financial reporting and facilitating town hall meetings. 20 participatory community consultations completed, 19 of the 20 authorities have completed tsunami recovery plans. 17 of the 20 authorities have completed staff enhancement plans to provide surge capacity to address shortfalls in personnel needs.

Anti-Corruption Program - assistance provided to the Commission to Investigate Allegations of Bribery and Corruption and the Auditor General's (AG) Department. Technical Assistance and training to both organizations, including help to the AG Department to prepare a plan to develop a software package for case management. Program completion is slated for mid-FY 2008, but the pending retirement of the AG this summer could delay program implementation slightly.

#### Comment

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12. (SBU) As anyone who has remodeled a home knows, construction is a tricky business that does not hold to tight deadlines and fixed budgets. Given the vagaries of Sri Lankan weather patterns (and election patterns for that matter), progress has been remarkably steady. That said, the GSL continues to create unrealistic expectations with its pledges to complete all housing by the end of 2006. If they achieve 50-60 percent of this target they will do

extremely well. Nonetheless, as long as progress remains steady, the GSL, its implementing partners and donors learn valuable lessons and apply new models, which help propel the process further. We do not doubt a successful conclusion to this difficult chapter of Sri Lanka's history, but we need to avoid shutting our efforts down too quickly and diminishing the possible returns to the USG from these efforts.

¶13. (U) While we are aware of the desire for quick delivery on these matters, we urge Washington to be cognizant of realities on the ground. At this time, USAID programs are generally on target, but it is normal to anticipate possible implementation delays. Key to the timely implementation and completion of the USAID-funded tsunami reconstruction activities will be the ability to maintain key operating expense (OE) account- and program funded- persons here in the field to manage the program. The need to maintain adequate government oversight was an issue raised in a recent draft report by the Government Accountability Office on tsunami reconstruction progress. To that end, USAID is in the process of reviewing their internal program management needs. End Comment  
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